THE WASHINGTON POST COMPANY
ANNUAL REPORT 1986

■ *"Cable advertising is new. We've had to lay our own foundation. To understand what the customer is trying to achieve, to see where we fit into those plans and how we can help, to put myself, as much as I can, in the advertiser's shoes—that's what works."* ■

Diane Randle, *Advertising Sales Representative, Post-Newsweek Cable*

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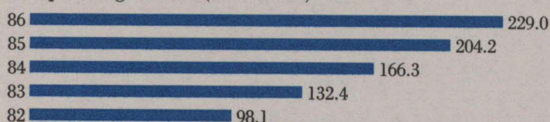
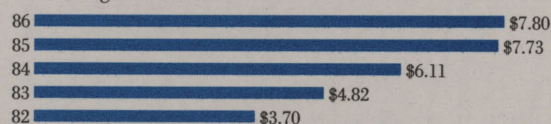
FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)	1986	1985	% Change
Operating revenues	$1,215,064	$1,078,650	+13%
Income from operations	$ 228,986	$ 204,186	+12%
Net income (excluding certain gains in 1985)	$ 100,173	$ 101,993*	−2%
Earnings per share (excluding certain gains in 1985)	$ 7.80	$ 7.73*	+1%
Dividends per share	$ 1.12	$ .96	+17%
Shareholders' equity per share	$ 34.04	$ 27.26	+25%
Average number of shares outstanding	12,842	13,194	−3%

*Excluding gains in 1985 totaling $12.3 million ($0.93 per share) from the sales of some cellular and SportsChannel interests.





*Excluding certain gains in 1985.

Nineteen eighty-six was another good year for The Washington Post Company. Improvements in the quality of our publications and programming produced significant gains in readers and viewers. The new cable division, acquired in January 1986, made an immediate and important contribution to operating results. We increased our majority ownership interest in the Miami-Ft. Lauderdale cellular telephone system and contracted to sell our minority interests in two other cellular systems. Finally, the company achieved its ambitious earnings objective: to surpass 1985 pro forma earnings per share, even after absorbing substantial dilution from the cable acquisition.

Specifically, earnings per share in 1986 were $7.80, with fewer shares outstanding, compared with pro forma earnings per share (excluding certain nonrecurring gains) of $7.73 in 1985. Net income totaled $100.2 million in 1986, compared with pro forma net income of $102.0 million in 1985. Excluded from 1985 pro forma earnings are gains of $12.3 million (93 cents per share) from the sales of certain cellular telephone and SportsChannel interests.

The 1986 earnings were achieved after absorbing dilution of $14.6 million ($1.14 per share) resulting from the acquisition of the cable division.

Revenue for 1986 totaled $1.2 billion, a 13 percent increase over revenue of $1.1 billion in 1985. Revenue from the cable division accounted for 62 percent of the increase.

Total return on average shareholders' equity was 25.5 percent.

The annual dividend rate was raised from $1.12 to $1.28 per share on January 9, 1987.

Newspaper Division Achieves Growth

Newspaper division operating income rose 14 percent in 1986, to $130.1 million from $114.5 million in 1985. Revenue totaled $589.3 million, a gain of 6 percent over $556.1 million the previous year.

The Washington Post has played a leading role in the investigation of the Iran-contra affair. A series by Leon Dash on teenage pregnancy drew widespread praise from readers, community leaders and national experts. For the second year in a row, The Post's Style section was named the best feature section in a large-circulation metropolitan daily in the J.C. Penney-University of Missouri Newspaper Awards competition. The Post's Health section also won a Penney-Missouri Award for a special issue on AIDS.

In September The Post launched a newly designed Sunday magazine. A major effort also has been undertaken to expand The Post's local coverage, particularly of rapidly growing outlying suburban areas. The Post created two new suburban bureaus, added several Metro reporters and is expanding its "Neighborhood Reports" with more local sports and school news.

Investments in quality journalism have produced increased circulation. Both daily and Sunday circulation set new records again in 1986. Since The Washington Star closed in 1981, The Post's circulation has risen 18 percent daily and 25 percent on Sunday.

The Post's household penetration is now 54 percent daily and 73 percent on Sunday, the highest of any major-market paper. The average penetration of newspapers in the top ten U.S. markets is 26 percent daily and 33 percent on Sunday.

Advertisers continue to regard The Post as the most effective advertising medium in the Washington market. Post advertising inches rose to 5,527,000 in 1986, from 5,460,000 in 1985. Advertising revenue increased 6 percent, to $454.3 million, despite a decline in real estate display advertising during the year, as low interest rates spurred housing demand and substantially reduced the inventory of unsold houses.

The Herald, the company's daily and Sunday newspaper in Everett, Washington, continued to improve its operating results. Advertising inches rose 12 percent in 1986 to 2.2 million.

Newsweek Profits Fall, Readers Increase

An industry-wide falloff in national advertising affected Newsweek in 1986. Operating income declined 38 percent, to $17.9 million from $29.1 million the previous year. Revenue decreased 2 percent, to $320.9 million from $326.1 million in 1985. The domestic edition carried 2,510 pages of advertising—excluding affiliated pages—in 53 issues, compared with 2,689 pages in 52 issues in 1985.

Nonetheless, Newsweek is well positioned for growth in 1987 and beyond. Under the leadership of editor-in-chief Richard M. Smith, Newsweek's editorial team has revitalized the magazine. In addition to first-rate coverage of domestic and foreign events, Newsweek successfully responded to its readers' need for news and perspective on evolving issues, from the drug crisis to AIDS to the changing structure of the American family. These efforts—supported by the new format and design introduced in late 1985—have made Newsweek the country's fastest growing newsweekly.

Newsweek gained 560,000 readers in 1986, according to figures released by Simmons Market Research Bureau. Total audience is now estimated at 17.4 million readers, a gain of 3 percent over the previous year.

Newsstand sales have been especially impressive, further reflecting Newsweek's editorial vitality. In 1986 average newsstand sales were up 11 percent over 1985.

Key initiatives designed to capitalize on Newsweek's quality and extend its audience are bearing fruit. For example, Newsweek On Campus, a five-year-old publication for college students, carried 205 advertising pages in 1986, a 35 percent increase over 1985.

Several appointments strengthened Newsweek's management team. Our goal is to achieve the same degree of consistency in Newsweek's business performance as has characterized the magazine's editorial progress. Christopher M. Little became president of Newsweek in September. He had been senior vice president and director of administration. Gerard Smith, who remains publisher, and Howard W. Smith, formerly president of Newsweek International, were named executive vice presidents. Peter J. Luffman became president of Newsweek International.

Unfavorable currency exchange rates had an adverse impact on Newsweek International results, despite real progress in editorial quality, advertising and circulation. In a stagnant worldwide advertising market, Newsweek International was able to increase its share of market among English-language international publications.

Circulation also increased. The combined circulation of Newsweek's international publications now is approximately one million.

Two new ventures enjoyed initial success. Nihon Ban, a joint effort of Newsweek and TBS-Britannica—and the first Japanese-language newsweekly ever published—generated enthusiastic response from readers and advertisers. Circulation grew to 120,000. Travel & Leisure/Asia, a monthly magazine published by Newsweek International with editorial copy from American Express Publishing Corporation, also is exceeding expectations.

Broadcast Division Outpaces Industry

The broadcast division achieved excellent growth in 1986, substantially outperforming the industry as a whole. Operating income rose 21 percent, to $70 million from $57.9 million in 1985. Division revenue increased 8 percent, to $167.1 million from $154.5 million the prior year. Television stations' operating margins (before corporate charges) rose to 43 percent from 41 percent in 1985.

All four Post-Newsweek stations ranked number one in their markets from sign-on to sign-off, according to November 1986 ratings. This is a significant accomplishment, especially considering that all three networks are represented by our station group.

WPLG, the company's ABC affiliate in Miami, achieved an encouraging recovery. Despite continuing uncertainty and turbulence in the Miami market— and ABC's last-place position among the networks— WPLG posted a significant increase in operating income. Political advertising made an important contribution to gains in advertising revenue. Each of WPLG's news programs ranked number one in its time period, and the station received many awards for programming, including the 1986 United Press International Award for the best local newscast in the country.

WDIV, our NBC affiliate in Detroit, maintained its momentum. The station was the number one-rated NBC affiliate in the top ten U.S. markets in the last four 1986 ratings periods. Operating income and margins increased.

WFSB, the company's CBS affiliate in Hartford, faced intensified competition in the burgeoning southern New England market. In response, WFSB capitalized on its traditional strength in programming and news. It replaced some syndicated programming with more local and regional news coverage and expanded its evening news to two hours. Despite competitive pressures, WFSB posted gains in operating income.

WJXT, our CBS affiliate in Jacksonville, continued its record of success. It achieved increases in operating income and once again was the highest rated station in a U.S. market with five or more stations. As one indication of its strength, WJXT delivered the 19th largest household audience for the CBS Evening News with Dan Rather, according to Nielsen's November ratings, even though Jacksonville is only the 57th largest television market.

Cable Division Meets Expectations

In the largest acquisition in its history, The Washington Post Company purchased 53 cable systems from Capital Cities/ABC, Inc., in January 1986 for approximately $350 million. During its first year as part of our company, Post-Newsweek Cable performed well.

Revenue totaled $84.9 million. Operating income was $11.8 million. Cable cash flow was $33.7 million—12.5 percent greater than the cash flow realized by these systems in 1985.

Total basic subscribers increased 3 percent during 1986, to 369,000. Premium subscriptions, which had declined in 1985, increased 2 percent as a result of repackaging, repricing and the introduction of new premium programming in many of the Post-Newsweek systems.

Advertising sales were launched in 19 of our systems during the year. We anticipate that they will become an increasingly important source of revenue in years to come. The Home Shopping Network was introduced in 16 systems, and pay-per-view was introduced in Modesto, California, our largest system.

Cable capital expenditures totaled $24 million in 1986, including $12 million for rebuilds. We expect to spend an additional $17 million for rebuilds in 1987, when the upgrading of three major systems will be substantially completed.

Post-Newsweek Cable during the year acquired two small cable systems, with a total of 1,400 subscribers, which were combined with existing systems.

Deregulation of cable pricing and programming became effective on December 29, 1986. The greater flexibility now provided to system operators should over time produce improved operating results, although price increases must reflect the value of the services delivered. More than 90 percent of Post-Newsweek Cable's systems, serving approximately 95 percent of its basic subscribers, qualify for deregulation.

Changes in Cellular Interests

In late 1986 and early 1987, the company increased its ownership interest in the Miami-Ft. Lauderdale cellular telephone system from 60 to 100 percent. The system is about to become operational and is making good progress in building its subscriber base.

In September 1986 we concluded an agreement to sell our 20 percent interest in the Washington-Baltimore cellular systems to Southwestern Bell Corporation. In December we contracted to sell our 18 percent interest in Detroit Cellular Telephone Company to a unit of Pacific Telesis Group. Both of these transactions are subject to various government approvals. When they are completed, we expect our total after-tax gain on the sales to be approximately $50 million.

Losses from the start-up of the Miami-Ft. Lauderdale cellular system resulted in an operating loss of $0.9 million in the company's "Other Businesses" segment, which also includes Stanley H. Kaplan Educational Centers and Legi-Slate.

Enrollment at Stanley H. Kaplan Educational Centers exceeded 95,000 students in 1986. A strengthened advertising program helped achieve a 33.5 percent increase in enrollment for SAT preparation courses.

Legi-Slate's operating income increased, and the value of its subscriber base rose 20 percent during the year.

Equity in Earnings of Affiliates Rises Sharply

The company's equity in earnings of affiliates for 1986 was $12.4 million, compared with $4.0 million in 1985. Better results from the company's Washington-Baltimore and Detroit cellular affiliates and newsprint operations and lower SportsChannel losses contributed to the gains. Both the Bear Island and Bowater Mersey mills produced and sold record tonnage in 1986, a reflection of strong management and a tightened market for newsprint.

Summary and Outlook

We were pleased—perhaps "relieved" would be a better word— that the company was able to extend its record of pro forma earnings per share gains in 1986, despite the hurdles of cable dilution and the impact on Newsweek of the depressed national advertising climate. Our 1986 results demonstrate the vitality of our business franchises, the effectiveness of the cost control efforts we launched five years ago and the talent and dedication of our employees. Our sales people, in particular, worked hard to produce a good year in a difficult environment. We salute them in the pages that follow.

In 1987 the company will benefit from the new tax law, the repayment of debt and from the sales, if completed this year, of our minority cellular interests. Still, the year is not without challenge. We must renew our efforts to control costs intelligently, without sacrificing the quality that lies at the foundation of our success. We must invest wisely for the future. And we must achieve growth in an economic and advertising environment that leaves much to be desired. Nonetheless, even excluding nonrecurring gains, we anticipate continued earnings per share growth.

Sincerely,

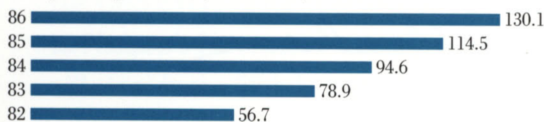
Katharine Graham
Chairman of the Board

Richard D. Simmons
President

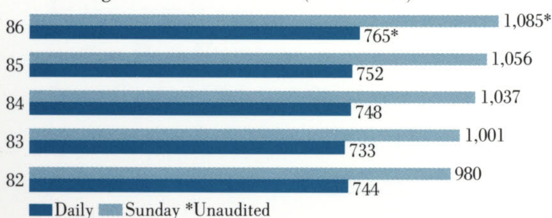
March 13, 1987

Operating Revenues ($ in millions)

Operating Income ($ in millions)



Washington Post Circulation (in thousands)



Washington Post Advertising Inches* (in millions)

*Publisher's measurements

Newspaper Division

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. For the 12 months ending September 30, 1986, The Post's unaudited average circulation was 764,695 daily and 1,085,208 Sunday. The Post maintains 17 foreign, 6 national and 10 metropolitan news bureaus. It is printed at sites in Northwest and Southeast Washington and nearby Springfield, Virginia.

Three Post executives were promoted to vice president: Larry A. Frankel became vice president-labor relations; Peggy Scott Schiff was named vice president-controller; and Ralph S. Terkowitz became vice president-data processing.

The Washington Post National Weekly Edition—a tabloid publication of selected Post articles and features edited for a national audience, with a circulation exceeding 50,000.

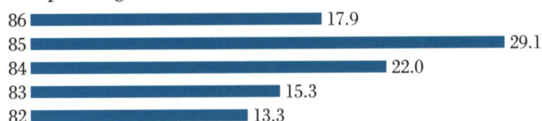
The Herald—a daily newspaper published weekday afternoons and Saturday and Sunday mornings in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited average circulation for the 12-month period ending September 30, 1986, was 55,882 daily and 57,700 Sunday.

The Washington Post Writers Group—a syndicator of 28 columns and features to newspapers throughout the United States. Pulitzer Prize-winning columnists David Broder, Ellen Goodman and George Will are part of the Writers Group, as is the best-selling comic strip Bloom County.

Robinson Terminal Warehouse Corporation—a newsprint handling and storage facility with operations in Alexandria and Springfield, Virginia.

Operating Revenues ($ in millions)

Operating Income ($ in millions)



Newsweek Readership*

*Source: Simmons Market Research Bureau

Newsweek International Circulation Rate Base*
(in thousands)

*Atlantic, Pacific and Latin America Editions

Newsweek

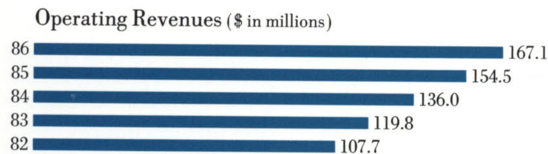
Newsweek—a weekly news magazine published in New York City. Newsweek has a 1987 rate base of 3,050,000. It maintains 10 U.S. and 17 foreign news bureaus and has 9 regional and 14 overseas advertising sales offices. The magazine is printed at 4 U.S. sites and in Ontario, Canada.

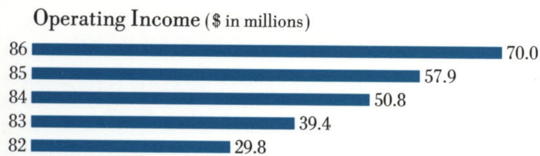
Sidney Ferenc, formerly controller, became vice president-finance.

Newsweek International—an English-language news magazine published in New York City and circulated throughout the world. For 1987, Newsweek International has rate bases of 310,000 for its Atlantic edition, 325,000 for its Pacific edition (including 125,000 for the Bulletin with Newsweek, Australia's largest newsweekly) and 55,000 for its Latin America edition. Newsweek International maintains sales offices in 3 U.S. and 11 foreign cities. It is printed in Zurich, Tokyo, Hong Kong and Hollywood, Florida.

Newsweek Japan (Newsweek Nihon Ban)—the first Japanese-language newsweekly, launched in 1986 with a circulation of 120,000. It is produced with TBS-Britannica, which translates and publishes the magazine.

Travel & Leisure/Asia—launched in 1986 with a circulation of 110,000. It is published by Newsweek International in Hong Kong. The editorial content is produced by American Express Publishing Corporation.





*Before corporate charges

Post-Newsweek Stations

Post-Newsweek Stations—the owner and operator of four network-affiliated VHF television stations, the PNS Washington News Bureau and the PNS documentary unit.

WDIV-4—an NBC affiliate in Detroit, Michigan, the 7th largest U.S. broadcasting market, with 1,684,300 television households.

WPLG-10—an ABC affiliate in Miami, Florida, the 16th largest U.S. broadcasting market, with 1,190,960 television households.

WFSB-3—a CBS affiliate in Hartford, Connecticut, the 24th largest U.S. broadcasting market, with 813,230 television households.

WJXT-4—a CBS affiliate in Jacksonville, Florida, the 57th largest U.S. broadcasting market, with 426,700 television households.

Post-Newsweek Cable

Post-Newsweek Cable —a new division of The Washington Post Company, headquartered in Phoenix, Arizona. The systems currently serve approximately 369,000 subscribers in 15 midwestern, western and southern states.

Post-Newsweek Cable Market Coverage:
(principal communities served and number of basic subscribers as of January 31, 1987)

Community	Subscribers
Arizona	
Clifton	1,472
Cottonwood	1,544
Globe	4,342
Holbrook	1,499
Page	1,702
Safford	4,713
Showlow	6.579
Winslow	2,450
California	
Burlingame	5,541
Modesto	41,131
Oakdale	2,765
Santa Rosa	38,726
Union City	6,925
Illinois	
Highland Park	8,235
Indiana	
Greenwood	6,171
Iowa	
Sioux City	17,502
Kansas	
Abilene	2,509
Beloit	1,675
Clay Center	1,977
Concordia	2,462
Mississippi	
Clarksdale	6,682
Gulfport	12,880
Missouri	
Brookfield	2,120
Joplin	9,131
Kirksville	5,177
Trenton	2,743
Nebraska	
Norfolk	7,875
New Mexico	
Rio Rancho	3,717
Roswell	11,249
North Dakota	
Fargo	14,884
Ohio	
Akron	10,249
Oklahoma	
Altus	8,359
Ardmore	8,972
Frederick	1,782
Hobart	1,784
Idabel	2,304
Mangum	1,499
Miami	3,891
Ponca City	11,236
Vinita/Nowata	2,289
Tennessee	
Dyersburg	5,745
Texas	
Aransas Pass	3,618
Bonham	2,717
Childress	2,025
Lampasas	2,209
Lufkin	14,228
Memphis	991
Odessa	23,600
Port Lavaca	4,083
Sherman/Denison	19,921
Wellington	1,089
TOTAL	368,969

Other Businesses

Stanley H. Kaplan Educational Centers—The Kaplan Centers, headquartered in New York City, prepare students for a broad range of academic, professional and licensing examinations, including SAT's, LSAT's, medical boards and bar reviews, as well as general skill-building programs such as speed-reading. The 1986 enrollment exceeded 95,000 students in more than 120 centers throughout the United States and in Canada and Puerto Rico.

Miami-Ft. Lauderdale Cellular Operations—a cellular telephone system now wholly owned by The Washington Post Company and scheduled to become operational in 1987.

Legi-Slate—a Washington, D.C., online information service covering Federal legislative and regulatory activity.

Affiliates

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)—a supplier of articles and features to nearly 600 newspapers, broadcast stations and magazines worldwide.

Bowater Mersey Paper Company Limited (49 percent of common stock)—a newsprint manufacturer in Liverpool, Nova Scotia.

Bear Island Paper Company (one-third limited partnership interest)—a newsprint manufacturer in Doswell, Virginia.

Bear Island Timberland Company (one-third limited partnership)—an investor in timberland.

International Herald Tribune, S.A. (33⅓ percent of common stock)—a daily newspaper published in Paris, France. The International Herald Tribune enters its centennial year with an average daily paid circulation of 170,000 in 164 countries served from printing sites in Paris, Zurich, London, Marseille, the Hague, Singapore, Hong Kong and Miami.

Cowles Media Company (21 percent of common stock)—owner of the Minneapolis Star and Tribune and other smaller publishing properties.

Cable Sports Programming—the company has partnership interests in four regional pay cable sports programming networks serving over 2 million subscribers: SportsChannel Associates (New York) (one-third interest), SportsChannel Prism Associates (Philadelphia) (one-third interest), SportsChannel Chicago Associates (one-third interest) and SportsChannel New England (one-sixth interest).

The numbers alone are staggering. The Washington Post runs more than 140,000 display ads each year, adding up to nearly 35,000 pages of advertising. The classified department receives more than 1 million incoming calls annually. It ran 3,537,978 ads in 1986. The Post sends out over 700,000 advertising bills a year.

What kind of sales staff does it take to keep pace with this volume and make it grow? Nicholas Cannistraro, Jr., The Post's vice president-advertising, says:

"The number one requirement for success in sales is a group of people who are dedicated to knowing their customers. Second, our sales people must have an incredible knowledge of the mechanics of advertising at The Post, and the myriad advertising opportunities we have available.

"Post sales people are constantly creating a dialogue between customer needs and our capabilities. The purely sales-driven company is one where the sales department sells what the company happens to make. We work hard to produce what the customer wants to buy, or—better still—what the customer needs."

Alan G. Spoon, The Post's vice president-marketing and finance, puts it this way: "The Post newspaper is like a city. Our advertising and marketing people study our advertisers' needs. Then they look for intersections at prime spots in The Post where each advertiser can have the greatest impact."

Many of these "intersections" are new advertising products created or exploited with unusual success by The Post. They include:

□ "We-prints," tabloid or broadsheet advertising sections printed by The Post and run in the daily paper. We-prints combine the catalogue value of preprints with the late closings of the regular newspaper.

□ "SPADEAs," color ads that fold partway around the comics. They have helped make The Post far and away the best seller of comics advertising in the country.

□ Special sections, including "The Top 100 Businesses in Washington," "Redskins Football Preview" and "High Tech Job Market." The Post in 1986 produced 47 special sections and opportunities to serve advertisers' targeted needs.

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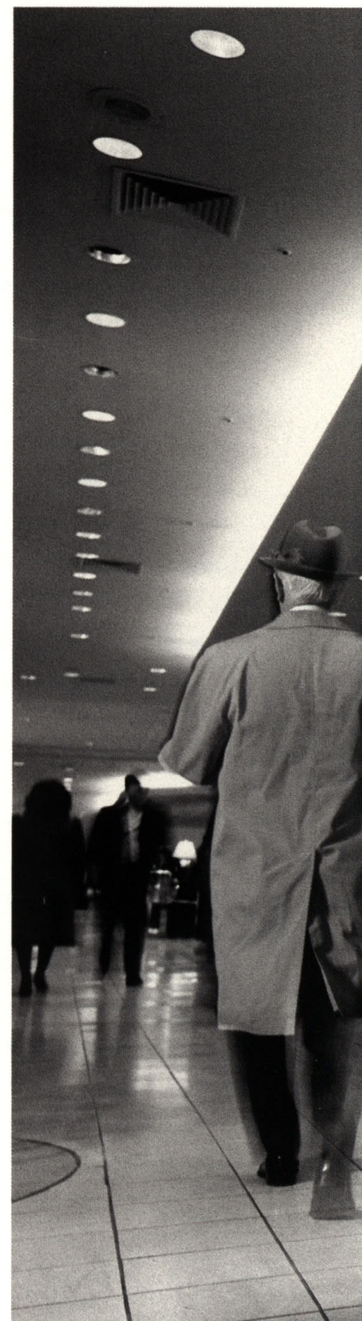
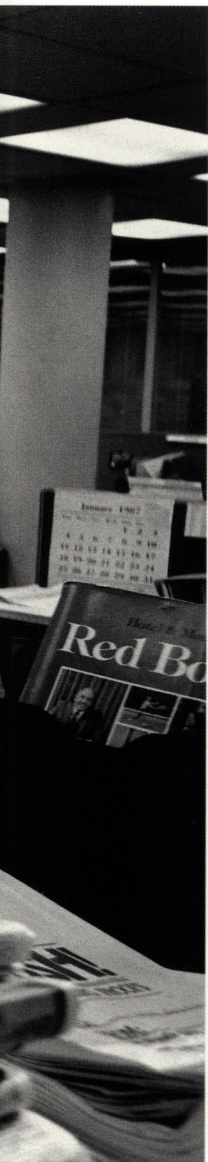


■ *"The nicest compliment I ever got was from a fellow in The Post's production department. He said, 'Schwartz is okay. The only problem is that he thinks he works for the advertisers.' It's true. I never say no to a customer. Whatever they tell you they need—a different approach, a new promotion—we figure out a way to do it. We can do it because we've got a great team with one goal: to put out a terrific product every day."* ■

William F. Schwartz, *Advertising Sales Manager (department and general merchandise store sales), The Washington Post*

■ *"Nothing is a substitute for results. But you have to be sensitive to the needs of human beings. Once the advertiser feels confident that you are trying to take this big monster, The Washington Post, and make it work for them, you're on the way to success."* ■

Blight G. Carter, Jr., *Advertising Sales Representative, The Washington Post*



"*Classified is like a miracle—overnight, every night, a new product. When I started out, we weren't even online. Now we have the best technology available. I love working here. It's always different, always changing and you're always learning.*"

Ann Thomas, *Classified Advertising Sales Representative (on special assignment to Post Plus), The Washington Post*

□ The new Washington Post Magazine, featuring state-of-the-art color reproduction on high-quality magazine stock.

Enthusiasm counts, too—the kind of dedication that led 67 of The Post's 85 full-time classified sales reps to sign up in 1986 for one or more of the 20 voluntary courses in product knowledge and selling skills conducted by in-house experts.

The dynamic growth of the Washington marketplace is The Post's prime source of advertising growth. But The Post would like to outpace it. Cannistraro explains how:

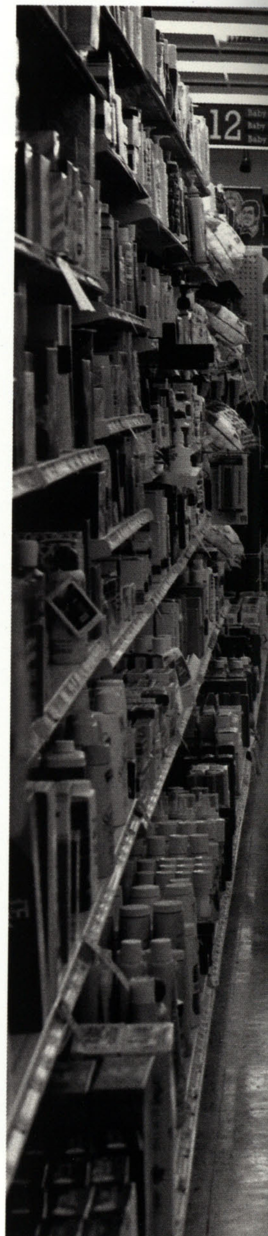
"One way we try to break ahead of the economy is by expanding the size of the advertising pie. In 1986 we created a new national ad sales team to go after national business. International ad sales have contributed, too. Revenue from international advertising—primarily geared to economic development issues—doubled this year.

"The Post is aggressive in ad rates. However, to raise ad rates beyond the rate of inflation, we have to demonstrate real improvements in the product. These include circulation increases, added or revitalized sections such as the new Sunday magazine, more color, improved black-and-white reproduction and better ways for the advertiser to target the customer, either geographically or demographically.

"American business is being managed more rigorously today than five years ago. Advertisers put tremendous demands on us for improved performance. We have to show them that increased spending pays off in increased results.

"The Washington Post accounts for a third of all advertising revenue in Washington," Cannistraro concludes. "To put it another way, The Post's advertising revenue is more than all of the area's broadcast properties, both television and radio, combined.

"That's a reflection of The Post's journalistic quality, its effectiveness as an advertising medium—and the spirit and professionalism of our sales people."



■ *"Because the Washington market has become so competitive, I sense a definite 'show me' or 'prove it to me' attitude on the part of my clients. Research is invaluable. Good relationships and trust are important, too—trust in what we tell our advertisers and trust that The Post will deliver."* ■

Susan C. Hake, *Advertising Sales Representative, The Washington Post, with* Joseph A. Pollard, *Senior Vice President, Corporate Relations and Advertising, Peoples Drug Stores*

■ *"Washington is unique, so completely different from any other major city across the country. It is an educated, upscale market. Washingtonians are newspaper readers and that clearly helps when you're selling The Post to clients that traditionally use television."* ■

Yvette C. Caldwell, *Advertising Sales Representative, The Washington Post*

"*We train our sales force very aggressively—including a strong emphasis on the knowledge of co-op advertising and how to use it. We also have clinics for advertisers and work with them individually. It can really pay off. We found almost $80,000 in co-op advertising for one small account that he didn't know was available.*"

Sal Mustachio, *Co-op Advertising Manager, The Herald*

■ *"I'm known inside Newsweek as a scrapper and a yeller for my customers. When I do presentations, I don't want to listen to the rattle of Newsweek blowing its own horn. I want to put down in black and white what we're going to do for the advertiser."* ■

Susan M. Jacobs, *Advertising Manager (apparel, cosmetics, toiletries and fragrances), Newsweek, with* Roland Puton, *President and Chief Executive Officer, Rolex Watch U.S.A., Inc.*

Nineteen eighty-six was a tough year for magazine advertising, and the outlook for 1987 is less than ebullient. How does Newsweek plan to rise above these industry doldrums?

Publisher and executive vice president Gerard Smith points first to Newsweek's editorial resurgence under the leadership of editor-in-chief Richard M. Smith.

"Rick Smith and his team are putting out a terrific product that is attracting more and more readers," Gerard Smith says. "More readers mean that we can become a more efficient advertising buy vis-a-vis our competition."

"We've also figured out a way to run our business in such a way as to enhance quality *and* keep costs down," observes Arthur E. Karlan, associate publisher-advertising director. "As a result, our price increases were less than our competitors'. We didn't raise our black-and-white rate at all."

"When everything is said and done, you have to have a good product and you have to have an efficient product. Then our sales people have something to work with. At Newsweek, we have both right now," Smith says.

Given the current economic and advertising environment, Newsweek's new editorial vitality and cost-effectiveness are critical. Smith explains: "The number of mass-market vehicles, tight ad budgets and the advertiser's continuing emphasis on defining his target market as narrowly as possible mean that newsweeklies no longer are an automatic buy.

"As a result, the role of Newsweek sales reps is very different. At one time it was believed that ad agencies decided what to buy and the salesperson's job was to service the account. Now Newsweek is putting a significant emphasis on *selling*, without diminishing the service aspects of what we do. We show advertisers how Newsweek can add value to their ad dollar."

The new focus is changing the character of Newsweek's sales operations. "Newsweek has been a very comfortable place to work," Gerard Smith says. "Maybe too comfortable. We don't want to make it unfriendly or uncomfortable. But at the same time, we can't afford to be complacent.

"Our sales people must be smart, fast, flexible and, above all, good as to how we represent this terrific product—and they are. Newsweek has a long and valued reputation for innovation and service. To that, we want to add the best sales organization in the business. I think we're well on the way."

■ *"We've seen so much change—in demographics, the market, the competition, technology, the economy. We sort it all out, track it and help our sales people find ways to make it work for Newsweek. We have to be fast and we have to be good. Our sales people depend on us."* ■

Mary T. McNamara, *Manager, Advertising Business Services, Newsweek*

"I often put in a 13-to-15-hour day. Why? Because that's what the Japanese are doing, and I'm playing by their rules. Lots of American companies here don't. Our clients look at the numbers, but they care about value. They buy Newsweek not only because it covers the issues that are critical to them, but also because it's an important part of America and the American tradition."

Nicholas M. Stavriotis, *Regional Sales and Marketing Director for North Asia (Japan and Korea), Newsweek*

■ *"Advertisers buy on numbers, they buy on image, they buy on gut. We have to appeal to all three. We've always been known as a terrific service organization. Now we're more aggressive about going after new categories of business—advertisers who haven't traditionally used news magazines."* ■

Douglas P. Jeppe, *Chicago Sales Director, Newsweek*

■ *"Los Angeles is a very young and aggressive market—innovative, open to change. It fits in very handsomely with Newsweek. We're not a magazine for people who are set in their ways. Advertisers like that. They want to reach people who will dare to change."* ■

Kim C. Haskell, *Los Angeles Sales Representative, Newsweek, at Ketchum Advertising*

■ *"Playing sports taught me that it doesn't matter if you win or lose—until you lose. Every time I make a sales call, it's a mission, a quest. I can taste victory, I can feel it in my mouth and in my bones. But it only lasts a day. Then you've got to do it again."* ■

Richard M. Hinds, *National Sales Manager, WPLG/Miami*

"We really have a good feel for the pulse of our markets," comments G. William Ryan, president and general manager of WPLG/Miami. "That's why all of the Post-Newsweek stations are number one in their markets despite network affiliation—and fortune."

While the basics, such as inventory control and pricing, are managed in the same professional way throughout Post-Newsweek, each individual station is marketed differently and capitalizes on its own special opportunities.

WDIV thrives in Detroit with a special focus on marketing sports and music programming, two passions of that city. WJXT/Jacksonville has earned a national reputation for the quality of its local news and documentaries. Both WFSB/Hartford and WPLG/Miami have had particular success with special event programming.

In Miami, for example, WPLG created special programming around ABC's broadcast of the Fourth of July rededication of the Statue of Liberty. WPLG has achieved even more impressive results with special football and basketball coverage produced in Miami and "networked" throughout the state of Florida via satellite.

"Anybody can sell spots," comments Ryan. "We look for opportunities to create and tailor special vehicles for specific advertisers that make sense from a news and/or programming point of view. This approach opens up a lot of opportunities for our sales people as well, opportunities on which they've capitalized with great effectiveness."

When asked why other stations haven't moved as aggressively on this front, Ryan has a one-word response: "Risk."

"It's very expensive to take the position that you are really going to serve your market," Ryan explains. "It takes a lot more time and resources, but most of all it involves risk. Our stable management, commitment to quality—and our results—have put us in a position to take the risks that make sense.

"We're on the cutting edge when opportunities come up," Ryan concludes. "That's better—acting instead of reacting. Leading instead of following."

■ *"We've been first a lot. We started market research way back in the 60s, vendor programs in the 70s, our own advertising production unit in the early 80s. But even if you gain an edge, you don't keep it for long. The competition is right behind you."* ■

Lee Nixon *(left), Assistant Local Sales Manager, WJXT/Jacksonville*

■ *"Customers are looking for more service and more knowledge. They understand television is a powerful medium, but they don't always know how best they can use it. Computers can do a lot, but they can't sell advertising. For that you still need a body and a brain."* ■

Jerry Campbell, *Local Sales Manager, WJXT/Jacksonville*

"Television today is characterized by high turnover—in ownership, management and personnel. There's more price pressure. And everything is much more last-minute. To combat all this, we've got three attributes going for us at WDIV: the stability and consistency of our product, our position as a station that responds to the interests of the local *market, and quality."*

Chris Rohrs, *Vice President and General Sales Manager, with* Mary Ann Rusch, *Director of Research (left),* Warren E. Anderson, *Local Sales Manager, WDIV/Detroit, and* Patricia R. McCarthy, *Director of Advertising and Public Relations, Henry Ford Health Care Corporation*

■ *"The new role of media sales is to develop creative ideas that fulfill the advertisers' needs. The more knowledge we have of our advertisers' goals, the closer our relationship becomes. Ultimately, we begin to function as partners—and the result is satisfaction and profits for both parties. Our expanded role is the key to effective sales development."* ■

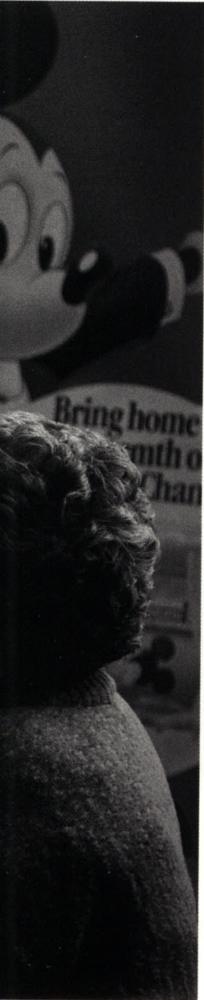
Nancy M. Brown *(left), Director of Sales Development, WFSB/Hartford*

▪ *"Good basic ideas, the kind that appeal to customers and work for us, too, are what we look for. Specials and sponsorships help accomplish advertiser goals that are difficult to achieve with regular television programming. These community partnerships also help us to expand and develop our advertiser base."* ▪

Donna A. Collins, *Director of Sales Projects, WFSB/Hartford*

■ *"We pay a lot of attention to educating our customers about cable. We've got the best home entertainment value in town—price, convenience, service—no one can really beat us, I'm convinced of that. We only have to make sure our subscribers realize that value."* ■

Mark L. Boyer, *In-house Marketing Representative/System Trainer, Post-Newsweek Cable (Marks Cablevision, Akron, Ohio)*

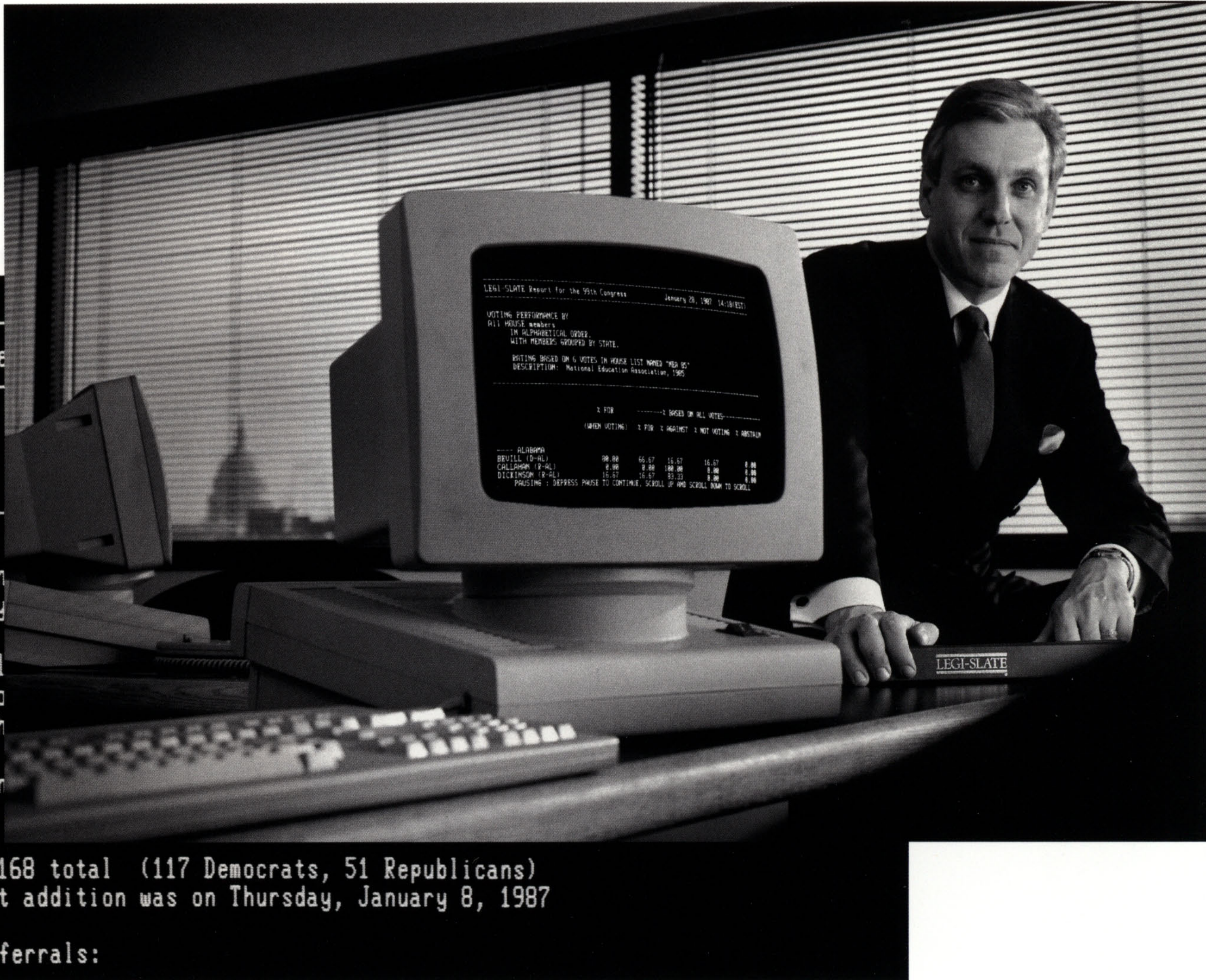


"Cable is no longer the new kid on the block, able to rely on the appeal of the product to grow our business," says Victor Harrison, vice president of marketing for Post-Newsweek Cable. "As cable systems mature, our sales staffs will have to lead the search for new ways to increase revenues and profits."

Ross Moerman, manager of Pacific Cable in Union City, California, agrees. "We're looking at several things—advertising, new services like Home Shopping Network, pay-per-view—but we're really concentrating hardest on subscriber growth, in both basic and pay services. That's the engine that will fuel our other efforts."

Educating customers to the value of cable is an important part of the sales effort, according to Mark Boyer, in-house marketing representative at Marks Cablevision in Akron, Ohio. "We're not really selling cable television; in fact we're selling entertainment, information and education. We have the best family home entertainment value for the money. It's our job to get people to realize it. That's the key," Boyer says.

To maximize growth, Post-Newsweek Cable is repackaging and repricing services and launching enhancements of premium programming. Explains Harrison, "We've learned some hard lessons. For many years basic service was undervalued and pay services overvalued. As programming proliferated, duplication inevitably followed. The advent of the VCR was the catalyst that created a negative trend in the purchase of premium services. Our strategy has been to reverse the price/value relationship of basic service and premium services. We now charge proportionately more for basic service and less for premium services. This more accurately reflects the value of each. The numbers tell us that it's working well for us—premium subscriptions have increased each month since July 1986."



■ *"The minute you stop listening to your client, the minute you think you have the best service around, the minute you think you have the best organization around, you're doomed. At Legi-Slate, we never settle for the status quo."* ■

Arnie L. Thomas, *Regional Manager, Legi-Slate*

Results of Operations

In each of the last two years the company has acquired a new business—Stanley H. Kaplan Educational Centers in 1985 and the cable television division in 1986, which derive virtually all their revenues from sources other than advertising and circulation.

As a result of the cable division and Kaplan acquisitions there has been a measurable change in the "mix" of the company's operating revenues, with the percentage of total operating revenues contributed by sales of newspaper, magazine and television advertising declining from 76 percent in 1984 to 74 percent in 1985 and 68 percent in 1986, while newspaper and magazine circulation revenues declined from 22 percent of operating revenues in 1984 to 20 percent in 1985 and 19 percent in 1986. At the same time, however, "other revenues," which accounted for only 2 percent of operating revenues in 1984, increased to 6 percent in 1985 and 13 percent in 1986.

Net income in 1985 increased 33 percent over 1984, reflecting improvements in operating income and earnings from affiliates as well as the inclusion of nonrecurring after-tax gains of $12.3 million from the sales of portions of the company's cable sports programming and cellular radiotelephone interests. Although net income in 1986 decreased by $14.1 million (12 percent) to $100.2 million, that decline was significantly affected by a number of factors, some favorable and some unfavorable: the acquisition of the cable division, which adversely affected earnings by approximately $14.6 million because of interest costs and amortization of intangibles; the adoption of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," which increased earnings by approximately $4.4 million; the retirement during the first quarter of 1986 of a portion of the debt related to the acquisition of the cable systems in order to obtain more favorable borrowing terms, which resulted in an after-tax charge that decreased earnings by $2.1 million; and, finally, the inclusion of nonrecurring after-tax gains of $1.9 million on the sales of minority interests in certain enterprises, including the company's 20 percent interest in the National Journal.

Earnings per share in 1985, on fewer shares outstanding, increased over 1984 by $2.55 or 42 percent, of which $.93 related to the nonrecurring gains. Earnings per share in 1986, with still fewer shares outstanding than in 1985, decreased by $.86 reflecting a net dilution of approximately $.82 resulting from the factors mentioned in the preceding paragraph.

Total operating revenues increased approximately 10 percent in 1985 and 13 percent in 1986. Advertising revenue in 1985 increased by 6 percent over 1984 due to increased rates in each of the company's divisions and increased volume at The Washington Post, where total advertising inches increased 4 percent, although advertising pages in Newsweek's domestic edition decreased 11 percent with two fewer issues in 1985. In 1986 advertising revenue increased 4 percent due to rate increases and a slight rise in volume at The Washington Post and improved pricing at the company's television stations, which together offset a decline in advertising revenue at Newsweek, which carried 7 percent fewer domestic advertising pages while publishing one more issue than in 1985. Circulation revenues increased 1 percent in 1985 and approximately 4 percent in 1986, the latter increase primarily reflecting price and volume increases at The Washington Post and volume increases in the international editions of Newsweek. Other revenues increased in 1985 due principally to the inclusion of the revenues of Stanley H. Kaplan Educational Centers and also to the start-up of Miami-Ft. Lauderdale cellular radiotelephone operations, while the increase in other revenues in 1986 is chiefly the result of the inclusion of the operations of the cable division and, to a lesser extent, the results of a full year of operations of the Miami-Ft. Lauderdale cellular radiotelephone system.

Total operating costs and expenses increased by approximately 7 percent in 1985, due in part to higher costs of wages and newsprint and to the inclusion of the operations of Stanley H. Kaplan Educational Centers and the Miami-Ft. Lauderdale cellular radiotelephone system, and increased 13 percent in 1986 reflecting the inclusion of the operations of the cable division and a full year of operations of Miami-Ft. Lauderdale cellular radiotelephone. Without the cable operations, total costs and expenses would have increased only 4.5 percent in 1986, with higher costs partially offset by the adoption of Statement of Financial Accounting Standards No. 87. Excluding Kaplan and Miami-Ft. Lauderdale cellular radiotelephone operations, in 1985 total costs and expenses would have increased only 3 percent.

In 1985 income from operations increased by 23 percent. In that year the operating margin at the newspaper division increased to 21 percent from 18 percent in 1984; Newsweek's operating margin increased to 9 percent from 7 percent in 1984, despite a slight decline in revenue; and the broadcast division's operating margin increased to 38 percent from 37 percent in 1984. The operating margin for the company's other businesses was approximately 9 percent in 1985. In 1986 income from operations increased by 12 percent, with the newspaper and broadcast divisions' operating margins increasing to 22 percent and 42 percent, respectively, while Newsweek's operating margin declined to 6 percent. The company's other businesses operated at virtually break-even, primarily due to the inclusion of a full year's results of Miami-Ft. Lauderdale cellular radiotelephone operations. The cable division's operating margin was 14 percent in 1986.

In 1984 the company's share of earnings of its affiliated companies was a loss of $5.7 million, while in 1985 and 1986 the company's share increased to earnings of $4.0 million and $12.4 million, respectively. The loss in 1984 was due largely to losses of $9.9 million incurred by the company's sports

programming affiliates. In January 1985 a portion of the company's interests in those affiliates was sold and the company's share of losses decreased to $3.8 million in 1985 and to $2.0 million in 1986. The company's share of earnings of its newsprint mill affiliates increased in 1985 by $.7 million and in 1986 by $4.4 million primarily due to improved operations and increased volume. In 1984 and 1985 the company recognized losses of $1.5 million and $1.2 million, respectively, as its share of operations of the cellular radiotelephone affiliates which began operations in 1984, but in 1986 the company recognized earnings of $.8 million from those affiliates. During 1985 and 1986 the company's equity in earnings of affiliates also included earnings from its 20 percent interest in Cowles Media Company, which the company began acquiring in March 1985.

In 1985 the company repurchased 1,197,116 shares of its Class B common stock and invested in Cowles Media Company common stock at a combined cost of approximately $205 million. Those transactions were financed through the use of internally generated funds and the private placement of short-term notes. In addition, on January 3, 1986, the company completed its cash purchase of the cable television systems from Capital Cities Communications, Inc., for approximately $350 million. In anticipation of this transaction the company increased its borrowings and temporary investments late in 1985 and early in 1986. As a result of these factors, interest expense substantially increased and interest income decreased in both 1985 and 1986.

Other income and expense includes for 1985 pre-tax gains of $19.3 million on sales of portions of the company's SportsChannel and cellular radiotelephone interests and for 1986 a loss associated with the retirement of a portion of the company's debt as well as pre-tax gains on the sales of certain minority interests. Excluding these nonrecurring items, other expense for all three years consists principally of losses on the sale or abandonment of operating properties.

In 1986 the effective tax rate increased from 48 percent to 51 percent, principally because of the incurrence of nondeductible amortization related to the purchase of the cable systems. In 1987 the rate is expected to decrease to approximately 47 percent as a result of changes in tax law contained in the Tax Reform Act of 1986. This estimate, however, is subject to refinement and the effects of any changes that may result from new rules relating to the accounting for deferred income taxes.

In 1985 and 1986 the average number of common shares outstanding declined by 6 percent and 3 percent, respectively, reflecting the repurchase in April 1985 of 1,197,116 shares of Class B common stock. After allowing for estimated opportunity costs, the effect of the repurchase was to increase the company's earnings per share by approximately 3 percent in 1985 and 5 percent in 1986.

Financial Condition: Capital Resources and Liquidity

During the period 1984 through 1986 the company expended approximately $792 million on various capital programs, principally investments in new businesses, purchases of additional plant and equipment and repurchases of Class B common stock. The transactions that occurred in 1984 and 1985 were financed through the use of internally generated funds and the private placement of short-term notes. In anticipation of the acquisition of the cable systems in January 1986, the company borrowed approximately $350 million in late 1985 and early 1986, while the remaining 1986 expenditures were financed through the use of internally generated funds.

The provisions of the Tax Reform Act of 1986 and the application of the provisions of the Financial Accounting Standards Board's exposure draft, "Proposed Financial Accounting Standards—Accounting for Income Taxes," may provide a reduction in recorded deferred taxes when a final standard is applied to the financial statements. However, in management's opinion the application of these provisions will not significantly affect the future financial position or liquidity of the company. Further, the repeal of the investment tax credit and the change in depreciation rules are not expected to impact the timing or nature of planned expenditures for plant and equipment. The company estimates that during 1987 and 1988 it will expend approximately $95 million for plant and equipment and it expects to fund such expenditures with cash flow from operations.

In management's opinion the changes in financial position described above or anticipated did not and will not impair the company's liquidity or its ability to secure additional financing.

(In thousands, except share amounts)	Fiscal Year Ended December 28, 1986	December 29, 1985	December 30, 1984
Operating Revenues			
Advertising	$ 831,205	$ 798,167	$749,673
Circulation	225,450	217,281	215,294
Other	158,409	63,202	19,336
	1,215,064	1,078,650	984,303
Operating Costs and Expenses			
Operating	671,199	611,597	579,519
Selling, general and administrative	265,484	235,290	214,498
Depreciation and amortization of property, plant and equipment	37,210	24,770	21,740
Amortization of goodwill and other intangibles	12,185	2,807	2,251
	986,078	874,464	818,008
Income from Operations	228,986	204,186	166,295
Equity in earnings (losses) of affiliates	12,421	4,020	(5,731)
Interest income	1,858	5,331	8,667
Interest expense	(35,490)	(9,685)	(1,792)
Other income (expense), net	(3,152)	17,582	(1,296)
Income before Income Taxes	204,623	221,434	166,143
Provision for Income Taxes	104,450	107,173	80,257
Net Income	$ 100,173	$ 114,261	$ 85,886
Earnings per Share	$7.80	$8.66	$6.11

The information on pages 42 through 50 is an integral part of the financial statements.

(In thousands, except share amounts)	December 28, 1986	December 29, 1985
ASSETS		
Current Assets		
Cash and temporary cash investments	$ 37,590	$202,852
Accounts receivable, less estimated returns, doubtful accounts and allowances of $25,567 and $22,873	131,380	113,941
Inventories at lower of cost or market	14,238	19,185
Prepaid film rights	15,012	9,956
Other current assets	21,202	13,240
	219,422	359,174
Investments in Affiliates	168,421	154,189
Property, Plant and Equipment		
Buildings	107,128	100,694
Machinery, equipment and fixtures	344,950	197,729
Leasehold improvements	28,334	24,679
	480,412	323,102
Less accumulated depreciation and amortization	(175,053)	(143,236)
	305,359	179,866
Land	21,812	18,106
Construction in progress	16,531	21,338
	343,702	219,310
Goodwill and Other Intangibles, less accumulated amortization of $27,792 and $15,607	363,424	96,394
Deferred Charges and Other Assets	50,258	56,012
	$1,145,227	$885,079

The information on pages 42 through 50 is an integral part of the financial statements.

(In thousands, except share amounts)	December 28, 1986	December 29, 1985
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 148,586	$107,202
Federal and state income taxes	(3,151)	(2,914)
Current portion of long-term debt and notes payable	39,678	52,432
	185,113	156,720
Other Liabilities	54,372	55,770
Long-Term Debt and Notes Payable	336,140	222,392
Deferred Subscription Revenue	77,095	69,109
Deferred Income Taxes	55,917	31,540
	708,637	535,531
Shareholders' Equity		
Preferred stock $1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, $1 par value, authorized 7,000,000 shares; 2,108,702 and 2,198,702 shares issued and outstanding	2,109	2,199
Class B common stock, $1 par value, authorized 40,000,000 shares; 17,891,298 and 17,801,298 shares issued; 10,716,836 and 10,623,071 shares outstanding	17,891	17,801
Capital in excess of par value	8,346	8,156
Retained earnings	635,717	549,909
Cumulative foreign currency translation adjustment	(4,232)	(5,092)
Cost of 7,174,462 and 7,178,227 shares of Class B common stock held in Treasury	(223,241)	(223,425)
	436,590	349,548
	$1,145,227	$885,079

The information on pages 42 through 50 is an integral part of the financial statements.

(In thousands, except share amounts)	Fiscal Year Ended December 28, 1986	December 29, 1985	December 30, 1984
Sources of Working Capital			
Net income	$ 100,173	$114,261	$ 85,886
Charges (credits) to income not requiring working capital			
Depreciation and amortization of property, plant and equipment	37,210	24,770	21,740
Amortization of television film rights	15,971	12,941	8,454
Net (gain) from sales of certain businesses	(1,782)	(12,268)	—
Income tax timing differences	23,904	4,669	(3,311)
Equity in (earnings) losses of affiliates	(12,421)	(4,020)	5,731
Amortization of goodwill and other intangibles	12,185	2,807	2,251
Other	12,084	11,513	9,143
Total provided by operations	187,324	154,673	129,894
Increase in long-term debt	167,017	218,392	—
(Decrease) increase in contracted television film rights payable	(5,742)	(3,691)	8,385
Net proceeds from sales of certain businesses	2,393	27,927	—
Dividends received from affiliates	1,341	957	200
Increase (decrease) in deferred subscription revenue	7,986	4,644	(1,523)
Other, including $3,629 in 1986 related to the cable systems acquisition	41,832	16,799	18,388
Total sources	402,151	419,701	155,344
Uses of Working Capital			
Investment in new businesses	4,115	88,807	37,232
Purchases of property, plant and equipment, including $95,772 in 1986 related to the cable systems acquisition	162,357	43,593	33,593
Repurchases of common stock	—	134,642	12,935
Decrease in long-term debt	53,269	2,250	2,250
Increase in goodwill and intangibles, including $258,965 related to the cable systems acquisition	279,215	—	—
Purchases of television film rights	19,735	14,209	21,947
Dividends on common stocks	14,365	12,881	11,228
Other, including $6,095 in 1986 related to the cable systems acquisition	37,240	25,881	12,989
Total uses	570,296	322,263	132,174
Net (Decrease) Increase in Working Capital	$(168,145)	$ 97,438	$ 23,170
Changes in Composition of Working Capital			
Cash and temporary cash investments	$(165,262)	$129,139	$ 4,946
Accounts receivable	17,439	5,526	15,671
Inventories	(4,947)	4,641	2,850
Prepaid film rights	5,056	225	398
Other current assets	7,962	1,084	4,078
(Decrease) increase in current assets	(139,752)	140,615	27,943
Accounts payable and accrued liabilities	(41,384)	(9,526)	(10,947)
Federal and state income taxes	237	16,531	3,174
Current portion of long-term debt and notes payable	12,754	(50,182)	3,000
(Increase) in current liabilities	(28,393)	(43,177)	(4,773)
Net (decrease) increase in working capital	$(168,145)	$ 97,438	$ 23,170

The information on pages 42 through 50 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Treasury Stock
Balance January 2, 1984	$2,748	$17,252	$4,437	$373,871	$(2,858)	$ (76,560)
Net income for the year				85,886		
Dividends—$.80 per share				(11,228)		
Repurchase of 199,000 shares of Class B common stock						(12,935)
Issuance of 16,388 shares of Class B common stock, net of restricted stock award forfeitures			(226)			230
Changes in foreign currency translation adjustment					(1,491)	
Other			1,001			
Balance December 30, 1984	2,748	17,252	5,212	448,529	(4,349)	(89,265)
Net income for the year				114,261		
Dividends—$.96 per share				(12,881)		
Repurchase of 1,197,116 shares of Class B common stock						(134,642)
Issuance of 30,002 shares of Class B common stock, net of restricted stock award forfeitures			1,777			482
Conversion of 549,680 shares of Class A common stock to Class B common stock	(549)	549				
Change in foreign currency translation adjustment					(743)	
Other			1,167			
Balance December 29, 1985	2,199	17,801	8,156	549,909	(5,092)	(223,425)
Net income for the year				100,173		
Dividends—$1.12 per share				(14,365)		
Issuance of 3,765 shares of Class B common stock, net of restricted stock award forfeitures			74			184
Conversion of 90,000 shares of Class A common stock to Class B common stock	(90)	90				
Change in foreign currency translation adjustment					860	
Other			116			
Balance December 28, 1986	$2,109	$17,891	$8,346	$635,717	$(4,232)	$(223,241)

The information on pages 42 through 50 is an integral part of the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal years 1984, 1985 and 1986 each included 52 weeks.

Principles of Consolidation. The accompanying financial statements include the accounts of the company and its subsidiaries; significant intercompany transactions have been eliminated.

Inventories. Inventories are valued at the lower of cost or market. Cost of newsprint is determined by the first-in, first-out method and cost of magazine paper is determined by the specific cost method.

Investments in Affiliates. The company uses the equity method of accounting for its investments in and earnings of affiliates.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost, which since 1980, in accordance with Statement of Financial Accounting Standards No. 34, includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property, plant and equipment, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment; 3 to 11 years for machinery and equipment, 20 to 50 years for buildings and 5 to 20 years for land improvements. The costs of leasehold improvements are amortized over the lesser of the useful lives or the terms of the respective leases.

Goodwill and Other Intangibles. Goodwill and other intangibles represent the unamortized excess of the cost of acquiring subsidiary and affiliated companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles acquired prior to October 30, 1970, the efffective date of Accounting Principles Board Opinion No. 17, are not being amortized because in the opinion of the company there has been no diminution of the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method over various periods up to 40 years in accordance with Opinion No. 17.

Deferred Film Rights. The broadcast subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. The unamortized cost of these rights and the liability for future payments under these agreements are reflected in the Consolidated Balance Sheets. The unamortized cost is charged to expense using accelerated amortization rates for motion pictures and accelerated or straight-line rates for syndicated programs.

Deferred Subscription Revenue and Magazine Subscription Procurement Costs. Deferred subscription revenue, which primarily represents amounts received from subscribers in advance of magazine and newspaper deliveries, is reflected in operating revenues over the subscription term. Subscription procurement costs are charged to expense as incurred.

Income Taxes. Deferred income taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes (principally depreciation), in the recognition of income tax to be withheld at the source of distribution of earnings of foreign affiliates, and in the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income taxes over the depreciable lives of the related assets.

Foreign Currency Translation. Gains and losses on foreign currency transactions and translation of accounts of the company's foreign operations are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the company's equity interests in its foreign affiliates are not included in the Consolidated Statements of Income but are reported separately and accumulated in the "Cumulative Foreign Currency Translation Adjustment" in the Consolidated Balance Sheets.

B. INVESTMENTS IN AFFILIATES

The company's investments in affiliates included the following (in thousands):

	1986	1985
Cowles Media Company	$ 74,962	$ 72,464
Newsprint mills	66,133	55,567
Sports programming operations	20,240	20,501
Other	7,086	5,657
	$168,421	$154,189

In 1985 the company acquired a 20 percent interest in the stock of Cowles Media Company, which owns and operates the Minneapolis Star and Tribune and several other smaller properties.

The company's interest in newsprint mills includes a 49 percent interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia; a one-third limited partnership interest in Bear

Island Paper Company, which owns and operates a newsprint mill near Richmond, Virginia; and, since 1985, a one-third limited partnership interest in Bear Island Timberland Company, which owns timberlands and supplies Bear Island Paper Company with a major portion of its wood requirements. Operating costs and expenses of the company include cost of newsprint supplied by Bowater Mersey Paper Company and Bear Island Paper Company of approximately $60,000,000 in each of the last three years.

During 1983 the company acquired interests in several businesses which distribute programming, principally sports events, to pay cable and subscription television subscribers. At the end of 1984 the company's interests included a 50 percent partnership interest in SportsChannel Associates, which operates in the metropolitan New York City area; a 90 percent partnership interest in SportsChannel Prism Associates, which operates in the metropolitan Philadelphia area; an 85 percent partnership interest in SportsChannel Chicago Associates, which operates in the metropolitan Chicago area; and a 25 percent limited partnership interest in SportsChannel New England, which operates in the New England and upstate New York areas. In January 1985 the company sold a part of its interest in each of the sports programming businesses reducing its respective interests in SportsChannel Associates, SportsChannel Prism Associates and SportsChannel Chicago Associates to approximately 33⅓ percent and its interest in SportsChannel New England to 16⅔ percent.

The company's other investments include a one-third common stock interest in a French corporation based near Paris which publishes the International Herald Tribune and a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc. In 1986, the company sold its 20 percent common stock interest in the National Journal, Inc., publisher of a weekly magazine specializing in national affairs. The company's investments also include various interests in several partnerships which are constructing and operating cellular radiotelephone systems and include an 18 percent partnership interest in Detroit Cellular Telephone Company, a 20 percent partnership interest in Washington/Baltimore Cellular Telephone Company and, in 1985, small interests in cellular partnerships in three Florida locations, two of which were sold in 1986. At the end of 1984 the company's cellular investments also included a 16⅔ percent partnership interest located in the Pacific Northwest, which was sold in 1985.

Summarized financial data for the affiliates' operations are as follows (in thousands):

	1986	1985	1984
Financial Position			
Working Capital	$ 98,485	$ 74,017	$ 11,285
Property, plant and equipment	380,518	314,915	208,783
Total assets	676,831	528,673	321,617
Long-term debt	155,033	92,673	80,071
Net equity	316,419	273,540	140,882
Results of Operations			
Operating revenues	$640,353	$555,587	$264,464
Operating income	81,442	54,735	10,330
Net income	44,356	17,536	(6,698)

The following table summarizes the status and results of the company's investments in affiliates (in thousands):

	1986	1985
Beginning investment	$154,189	$ 80,936
Equity in earnings	12,421	4,020
Dividends received	(1,341)	(957)
Additional investments	4,115	87,126
Sale of investments	(709)	(15,740)
Other	(254)	(1,196)
Ending investment	$168,421	$154,189

At December 28, 1986, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at date of acquisition was $57,600,000, which is being amortized over periods of up to 40 years. Amortization included in equity in earnings of affiliates for the years ended December 28, 1986, December 29, 1985, and December 30, 1984, was $2,300,000, $2,200,000 and $1,800,000, respectively.

C. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 28, 1986 and December 29, 1985 consist of the following (in thousands):

	1986	1985
Accounts payable and accrued expenses	$ 80,460	$ 67,086
Accrued payroll and related benefits	25,235	20,497
Accrued interest expense	17,935	2,451
Film contracts payable	17,499	12,070
Contributions due employee benefit trust funds	240	391
Due to affiliates (newsprint)	7,217	4,707
	$148,586	$107,202

D. INCOME TAXES

The provision for income taxes consists of the following components (in thousands):

	Current	Deferred
1986		
U.S. Federal	$ 65,846	$ 19,881
Foreign	51	610
State and local	14,649	3,413
	$ 80,546	$ 23,904
1985		
U.S. Federal	$ 84,881	$ 3,880
Foreign	767	382
State and local	16,856	407
	$102,504	$ 4,669
1984		
U.S. Federal	$ 71,170	$ (2,870)
Foreign	990	311
State and local	11,408	(752)
	$ 83,568	$ (3,311)

Deferred taxes are attributable to the following (in thousands):

	1986	1985	1984
Tax depreciation in excess of depreciation for financial reporting purposes	$19,072	$ 4,471	$ 3,095
Deferral of investment tax credits for financial reporting purposes	2,349	51	(554)
Other	2,483	147	(5,852)
	$23,904	$ 4,669	$(3,311)

The provision for income taxes exceeds the amount of taxes determined by applying the U.S. Federal statutory rate of 46 percent to income before income taxes as a result of the following (in thousands):

	1986	1985	1984
U.S. Federal income taxes at 46 percent of income before income taxes	$ 94,127	$101,860	$ 76,426
State and local taxes net of Federal income tax benefit	9,754	9,322	5,755
Amortization of goodwill not deductible for tax purposes	3,737	1,016	852
Domestic and foreign income taxes netted in equity in earnings of affiliates	(3,392)	(2,612)	(1,199)
Other	224	(2,413)	(1,577)
Provision for income taxes	$104,450	$107,173	$ 80,257

E. DEBT

Long-term debt of the company as of December 28, 1986 and December 29, 1985 is summarized as follows (in thousands):

	1986	1985
6.95 percent unsecured promissory notes due 1987	$ 4,000	$ 6,250
10.68 percent unsecured promissory notes due 1991-1994	100,000	100,000
8.5 percent unsecured promissory notes due 1987	100,000	30,000
10.1 percent unsecured European Currency Unit notes due 1996	50,881	—
10.875 percent unsecured Eurodollar notes due 1995	1,400	15,000
Unsecured short-term notes supported by credit agreements with banks	114,402	122,382
Other	5,135	1,192
Less amounts included in current liabilities	(39,678)	(52,432)
	$336,140	$222,392

The company has a credit agreement with a group of banks that permits borrowings of up to $250,000,000 until December 31, 1987, and lesser amounts thereafter until the commitment expires on January 1, 1992. Interest rates on borrowings under this credit agreement are no greater than the floating prime rate. During the commitment period, a fee is payable on the unused portion of the permitted borrowings. At December 28, 1986, there were no outstanding borrowings under these agreements.

The agreements relating to the promissory notes and the credit agreements include restrictive provisions which principally pertain to limits on indebtedness, the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1986 retained earnings unrestricted by these provisions were $166,000,000.

During 1986 and 1985 the company issued unsecured short-term notes supported by bank credit agreements. The average daily borrowings were $103,200,000 and $68,200,000, at a weighted average cost of 7.8 percent and 8.5 percent in 1986 and 1985, respectively. The maximum borrowings outstanding at the end of any period were $191,500,000 during 1986 and $123,500,000 during 1985. There were no such borrowings during 1984.

At December 28, 1986, the company's outstanding short-term notes were classified as currently payable to the extent that the company anticipates retiring the debt during 1987 and as long-term to the extent that the company expects to refinance these obligations for at least one year through the use of similar instruments or long-term financing.

The Eurodollar offering provided for $85 million to be borrowed by the company on April 30, 1986, at the same interest rate and with the same maturity as previously noted. In February 1986 the company reacquired $14.8 million of the already issued notes and reduced the $85 million commitment to $1.2 million.

Annual maturities of long-term debt based on existing loan repayment schedules are $700,000 in 1988, $1,100,000 in 1989, $1,200,000 in 1990, $26,000,000 in 1991, $25,000,000 in each of the years 1992-1994, $1,400,000 in 1995, and $51,000,000 in 1996.

F. CAPITAL STOCK, STOCK OPTIONS AND STOCK AWARDS

Capital Stock. Each share of Class A common stock and Class B common stock participates equally in dividends. The Class B stock has limited voting rights and as a class has the right to elect 30 percent of the board of directors; the Class A stock has unlimited voting rights including the right to elect a majority of the board of directors.

Stock Options. In 1971 the company adopted a Stock Option Plan and reserved 1,400,000 shares of Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. At December 28, 1986, there were 189,700 shares reserved for issuance under the Stock Option Plan. Of this number 26,500 shares were subject to options outstanding and 163,200 shares were available for future grants. Changes in the options outstanding for the years ended December 28, 1986, and December 29, 1985, were as follows:

	1986		1985	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	30,000	$ 30.25	30,500	$ 25.10
Granted	1,000	149.00	1,500	121.50
Exercised	(4,500)	26.47	(2,000)	20.25
Cancelled	—	—	—	—
End of year	26,500	35.37	30,000	30.25

Of the shares covered by options outstanding at the end of 1986, 24,375 are now exercisable, 625 will become exercisable in each of the years 1987 through 1989, and 250 will become exercisable in 1990.

Stock Awards. In 1982 the company adopted a Long-Term Incentive Compensation Plan which, among other provisions, authorizes the awarding of stock to key employees. Stock awards made under the Incentive Compensation Plan are subject to the general restriction that stock awarded to a participant will be forfeited and revert to company ownership if the participant's employment terminates before the end of a specified period of service to the company. 275,000 shares of Class B common stock were reserved for stock awards to be made under the Incentive Compensation Plan. Activity related to stock awards for the years ended December 28, 1986, and December 29, 1985, was as follows:

	1986		1985	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding				
Beginning of year	60,011	$ 66.12	76,870	$ 41.12
Awarded	3,378	124.40	29,500	79.16
Vested	(413)	57.74	(44,861)	31.73
Forfeited	(4,113)	68.35	(1,498)	77.40
Awards Outstanding End of year	58,863	69.17	60,011	66.12

For the shares outstanding at December 28, 1986, the aforementioned restriction will lapse in January 1987 for 29,686 shares and in January 1989 for 29,177 shares.

Average Number of Shares Outstanding. Earnings per share are based on the weighted average number of shares of common stock outstanding during each year, adjusted for the dilutive effect of shares issuable under outstanding stock options. The average number of shares considered outstanding was 12,842,000 for 1986, 13,194,000 for 1985, and 14,050,000 for 1984.

G. RETIREMENT PLANS

The company and its subsidiaries have various pension and incentive savings plans and in addition contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees including some located in foreign countries are covered by these plans.

In 1986 the company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87). Pension cost for 1986 and related disclosures as of December 28, 1986, are determined under the provisions of SFAS No. 87. Pension cost and related disclosures for 1985 and 1984 are determined under the provisions of previous accounting principles.

In 1985 and 1984 total expense for all plans combined was $8,500,000 and $13,900,000, respectively. A change during 1985 in the actuarial assumptions used in computing pension expense had the effect of reducing pension expense by approximately $5,000,000. The net effect of the change to the methods required by SFAS No. 87 was to decrease pension expense by approximately $9,000,000 and for all plans combined a net credit of $400,000 was recognized in 1986.

The costs for the company's defined benefit pension plans are actuarially determined and include amortization of prior service costs over various periods, generally not exceeding 20 years. The company's policy is to fund the costs accrued for its defined benefit plans. In 1985 and 1984, however, the company funded amounts less than the costs accrued for certain plans.

The following table sets forth the funded status of the defined benefit plans and amounts recognized in the Consolidated Balance Sheet at December 28, 1986 (in thousands):

Actuarial present value of accumulated plan benefits, including vested benefits of $55,904	$ 64,897
Plan assets at fair value, primarily listed securities	$228,674
Projected benefit obligation for service rendered to date	(82,957)
Plan assets in excess of projected benefit obligation	145,717
Prior service cost not yet recognized in periodic pension cost	—
Less unrecognized net gain from past experience different from that assumed	(20,069)
Less unrecognized net asset (transition amount) being recognized over approximately 17 years	(122,798)
Prepaid pension cost at December 28, 1986	$ 2,850

The accumulated plan benefits at January 1, 1985 were $48,642,000, including vested benefits of $41,310,000. Plan assets available for benefits at January 1, 1985, were valued at $155,268,000.

The net pension credit for the year ended December 28, 1986, includes the following components (in thousands):

Service cost for benefits earned during the period	$ 5,386
Interest cost on projected benefit obligation	5,609
Less actual return on plan assets	(32,685)
Net amortization and deferral	12,717
Net pension credit	$ (8,973)

The weighted average discount rate and rate of increase in future compensation levels used for 1986 in determining the actuarial present value of the projected benefit obligation were 7.5 percent and 4 percent, respectively. The expected long-term rate of return on assets was 8 percent in 1986, 1985 and 1984.

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $1,300,000 in 1986.

The costs of unfunded retirement plans are charged to expense when accrued. The company's liability for such plans, which is included in "Other Liabilities" in the Consolidated Balance Sheets, was $18,800,000 at December 28, 1986, and $16,100,000 at December 29, 1985.

In addition to providing pension benefits, the company and its subsidiaries have certain health care and life insurance plans that include retired employees who have reached retirement age while employed by the company. Retiree participation in these plans as a percentage of total participation approximated 7 percent in 1986 and 8 percent in 1985 and 1984 for the life insurance plan, and 10 percent in 1986, 9 percent in 1985 and 11 percent in 1984 for the medical plan. The cost of these plans, which is charged to expense as premiums are paid or trust contributions are made, was approximately $16,200,000 for 1986, $13,000,000 for 1985, and $11,700,000 for 1984.

H. LEASES

Total rental expense included in operating costs and expenses was approximately $16,000,000 for 1986, $14,300,000 for 1985, and $11,900,000 for 1984. As of December 28, 1986, minimum future rentals under non-cancelable leases, principally all for real estate, were as follows (in thousands):

1987	$10,807
1988	9,906
1989	8,776
1990	7,013
1991	6,327
Thereafter	18,058
	$60,887

Included in the rentals above is $3,800,000 per year related to a real estate lease which expires in 1994, but may be renewed for an additional fifteen-year period at the option of the company at an amount to be negotiated.

I. ACQUISITIONS AND DISPOSITIONS

In January 1985 the company sold a portion of its interest in each of the cable sports programming businesses, reducing its respective interests in SportsChannel Associates, SportsChannel Prism Associates, and SportsChannel Chicago Associates to about 33⅓ percent and its interest in SportsChannel New England to 16⅔ percent. During 1985 the company also sold its minority cellular interests in Interstate Mobilephone Company located in the Pacific Northwest and in four Connecticut cellular companies. The effect of these transactions before giving effect to taxes of $7,036,000 was a gain of $19,304,000, which amount is included in "Other Income (Expense), Net" in the Consolidated Statement of Income for 1985. These gains increased 1985 earnings per share by $.93.

During 1986 the company sold its 20 percent interest in National Journal, Inc., and its minority interests in two Florida cellular radiotelephone systems. The effect of these transactions on 1986 earnings was an increase of $1,900,000 or fifteen cents per share.

At the close of business on December 31, 1984, the company acquired the assets of Stanley H. Kaplan Educational Centers, which operates educational centers throughout the United States. The transaction, which was not significant to the company's financial position, was financed with existing working capital.

On January 3, 1986, the company completed its acquisition of 53 cable television systems and certain properties by purchasing virtually all of the outstanding stock of eight subsidiaries of Capital Cities Communications, Inc., for an aggregate cash purchase price of approximately $350 million, which was financed through borrowings. The transaction was accounted for as a purchase and the results of operations of the systems were included with those of the company for the period subsequent to the date of acquisition.

The following statements present the company's pro forma condensed consolidated income statement for the year ended December 29, 1985, as if the cable acquisition and the required borrowings had occurred at the beginning of the year. Amounts reflect an allocation of the purchase price to the acquired net tangible assets, with the excess being amortized over periods of 5 to 40 years. The revenues and results of operations presented in the pro forma income statement do not necessarily reflect the results of operations that might have been attained had the acquisition occurred at the beginning of 1985.

Pro Forma Income Statement
For the Year Ended
December 29, 1985

	Company	Cable	Adjustments	Combined
Operating Revenues	$1,078,650	$78,032		$1,156,682
Net Income	114,261	2,133	(19,496)	96,898
Earnings per share	$8.66			$7.34

During 1986 the company acquired an additional 30 percent partnership interest in its Miami-Ft. Lauderdale cellular radiotelephone system and, in January 1987, acquired the remaining 10 percent partnership interest outstanding. These transactions, which were financed with existing working capital, were not significant to the company's financial position at December 28, 1986.

In 1986 the company contracted to sell its minority interests in the Washington/Baltimore and Detroit cellular companies. Completion of the sales is contingent upon government approval and other factors.

J. COMMITMENTS AND CONTINGENCIES

In connection with its investments in new businesses, the company has guaranteed the repayment of certain borrowings and, in addition, may be required to pay additional amounts if the businesses achieve specified levels of performance. These amounts are not significant to the company's financial position at December 28, 1986.

The company is a party to various civil lawsuits, including libel actions, arising in the ordinary course of business. In the opinion of management, the company carries adequate liability insurance against such libel actions, and the company is not presently a party to any other material litigation.

K. BUSINESS SEGMENTS

The company operates principally in four areas of the communications industry: newspaper publishing, magazine publishing, television broadcasting and, in 1986, cable television.

Newspaper operations involve the publication of newspapers in Washington, D.C., and Everett, Washington, and a newsprint warehousing facility. Magazine publishing operations consist of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Broadcast operations are conducted primarily through four VHF television stations. All stations are network affiliated with revenues derived primarily from sales of advertising time.

Cable television operations consist of 51 cable systems which offer basic cable and pay television services to approximately 369,000 subscribers in 15 midwestern, western and southern states. The principal source of revenues is monthly subscription fees charged for services.

"Other Businesses" include the operations of a database publishing company, educational centers engaged in preparing students for admissions tests and licensing examinations, and a cellular radiotelephone system in Miami-Ft. Lauderdale. The last two were either acquired or became operational in 1985.

Income from operations is the excess of operating revenues over operating expenses including corporate expenses which are allocated to operations of the segments. In computing income from operations by segment, the effects of equity in earnings of affiliates, interest income, interest expense, other income and expense items and income taxes are not included. Development costs in 1984 relate to the company's applications for licenses to operate cellular radiotelephone systems, and in 1985 relate primarily to a new magazine effort.

Identifiable assets by segment are those assets used in the company's operations in each business segment. Investments in affiliates are discussed in Note B. Corporate assets are principally cash and temporary investments.

	Newspaper Publishing	Magazine Publishing	Broadcast	Cable Television	Other Businesses	Consolidated
1986						
Operating revenues	$589,252	$320,924	$167,122	$ 84,878	$52,888	$1,215,064
Income from operations	$130,138	$ 17,934	$ 70,004	$ 11,829	$ (919)	$ 228,986
Equity in earnings of affiliates						12,421
Interest expense						(35,490)
Other expense, net						(1,294)
Income before income taxes						$ 204,623
Identifiable assets	$246,810	$ 86,992	$151,962	$365,963	$84,279	$ 936,006
Investments in affiliates						168,421
Corporate assets						40,800
Total assets						$1,145,227
Depreciation and amortization of property, plant and equipment	$ 13,072	$ 4,756	$ 6,641	$ 10,465	$ 2,276	$ 37,210
Amortization of goodwill and other intangibles	$ 534		$ 664	$ 9,517	$ 1,470	$ 12,185
Capital expenditures	$ 11,888	$ 8,872	$ 6,650	$ 23,695	$15,480	$ 66,585

	Newspaper Publishing	Magazine Publishing	Broadcast	Other Businesses	Consolidated
1985					
Operating revenues	$556,070	$326,053	$154,513	$42,014	$1,078,650
Income from operations	$114,477	$ 29,064	$ 57,945	$ 3,668	$ 205,154
Development costs					(968)
Total income from operations					204,186
Equity in earnings of affiliates					4,020
Interest expense					(9,685)
Other income, net					22,913
Income before income taxes					$ 221,434
Identifiable assets	$228,958	$ 91,866	$146,181	$50,662	$ 517,667
Investments in affiliates					154,189
Corporate assets					213,223
Total assets					$ 885,079
Depreciation and amortization of property, plant and equipment	$ 12,717	$ 4,686	$ 5,714	$ 1,653	$ 24,770
Amortization of goodwill and other intangibles	$ 534		$ 664	$ 1,609	$ 2,807
Capital expenditures	$ 16,188	$ 9,731	$ 9,205	$ 8,469	$ 43,593

	Newspaper Publishing	Magazine Publishing	Broadcast	Consolidated
1984				
Operating revenues	$516,648	$331,614	$136,041	$ 984,303
Income from operations	$ 94,604	$ 22,048	$ 50,813	$ 167,465
Development costs				(1,170)
Total income from operations				166,295
Equity in earnings of affiliates				(5,731)
Interest expense				(1,792)
Other income, net				7,371
Income before income taxes				$ 166,143
Identifiable assets	$225,064	$ 80,737	$140,205	$ 446,006
Investments in affiliates				80,936
Corporate assets				118,858
Total assets				$ 645,800
Depreciation and amortization of property, plant and equipment	$ 12,323	$ 4,250	$ 5,167	$ 21,740
Amortization of goodwill and other intangibles	$ 1,587		$ 664	$ 2,251
Capital expenditures	$ 11,785	$ 13,448	$ 8,360	$ 33,593

L. SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly results of operations for the years ended December 28, 1986 and December 29,1985 are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1986				
Operating revenues	$276,761	$313,275	$291,534	$333,494
Income from operations	37,269	66,558	49,931	75,228
Net income	12,362	30,409	21,131	36,271
Earnings per share	$ .96	$2.37	$1.65	$2.82
Average number of shares outstanding	12,843	12,843	12,842	12,840

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1985				
Operating revenues	$243,590	$284,302	$259,377	$291,381
Income from operations	25,774	67,813	45,540	65,059
Net income	24,927	34,817	21,983	32,534
Earnings per share	$1.78	$2.66	$1.71	$2.53
Average number of shares outstanding	14,034	13,070	12,837	12,837

During the last three quarters of 1985 the company acquired stock of Cowles Media Company and, in December, attained 20 percent of the outstanding voting stock. Therefore, the equity method of accounting was adopted during the fourth quarter of 1985 and in accordance with Accounting Principles Board Opinion No. 18, second and third quarter results for 1985 have been restated from previously reported results to reflect the retrospective adoption of the equity method of accounting. Amounts restated were not significant to the quarterly results of operations.

The sum of the earnings per share for the four quarters differs from the annual earnings per share as a result of computing the quarterly and annual amounts on the weighted number of shares outstanding in the respective periods in accordance with Accounting Principles Board Opinion No. 15.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
The Washington Post Company

In our opinion, the consolidated financial statements appearing on pages 37 through 41 present fairly the financial position of The Washington Post Company and its subsidiaries at December 28, 1986 and December 29, 1985 and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended December 28, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Washington, D.C.
February 3, 1987

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1984-1986. Share and per share data have been restated to give effect to a two-for-one stock split on December 29, 1978.

(In thousands, except per share amounts)	1986	1985	1984
Results of Operations			
Operating revenues	$1,215,064	$1,078,650	$984,303
Income from operations	$ 228,986	$ 204,186	$166,295
Income before cumulative effect of change in method of accounting	$ 100,173	$ 114,261	$ 85,886
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 100,173	$ 114,261	$ 85,886
Per Share Amounts			
Earnings per share			
Income before cumulative effect of change in method of accounting	$ 7.80	$ 8.66	$ 6.11
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 7.80	$ 8.66	$ 6.11
Cash dividends	$ 1.12	$ .96	$ .80
Shareholders' equity	$34.04	$27.26	$27.17
Average Number of Shares Outstanding	12,842	13,194	14,050
Financial Position			
Current assets	$ 219,422	$ 359,174	$218,559
Working capital	34,309	202,454	105,016
Property, plant and equipment	343,702	219,310	191,072
Total assets	1,145,227	885,079	645,800
Long-term debt	336,140	222,392	6,250
Shareholders' equity	436,590	349,548	380,127
Pro Forma Amounts (See Notes)			
Net income	$ 100,173	$ 101,993	$ 85,886
Earnings per share	$ 7.80	$ 7.73	$ 6.11

NOTES:

In 1979 the company changed its method of accounting for magazine subscription procurement costs. Pro forma amounts shown for the years 1977 and 1978 show what net income and earnings per share would have been if the current method for magazine subscription procurement costs had been in effect during those years. Additionally, pro forma amounts shown for 1978, 1981 and 1985 show what net income would have been without nonrecurring gains and losses from the sales of businesses as described below.

In 1978 the company realized a nonrecurring gain from the sale of a radio station which increased net income and earnings per share by $4,300,000 and $.27. In 1981 the company realized nonrecurring losses from the sale of its newspaper subsidiary in Trenton, New Jersey, its national television sales subsidiary and the company's magazine, Inside Sports. The effect of these losses was to decrease net income and earnings per share by $2,100,000 and $.15. In 1985 the company realized nonrecurring gains from the sales of portions of the company's SportsChannel and cellular telephone interests. The effect of these gains was to increase net income and earnings per share by $12,300,000 and $.93.

1983	1982	1981	1980	1979	1978	1977
$877,714	$800,824	$753,447	$659,535	$593,262	$520,398	$436,102
$132,415	$ 98,106	$ 65,714	$ 65,513	$ 80,421	$ 89,190	$ 71,074
$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 42,999	$ 49,720	$ 35,469
—	—	—	—	13,531	—	—
$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 29,468	$ 49,720	$ 35,469
$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 2.75	$ 3.06	$ 2.09
—	—	—	—	.86	—	—
$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 1.89	$ 3.06	$ 2.09
$ .66	$ .56	$ .50	$ .44	$ .36	$ .30	$ .18
$22.50	$18.32	$15.17	$13.40	$11.56	$11.15	$ 8.59
14,195	14,153	14,077	14,068	15,609	16,232	16,952
$190,616	$170,658	$135,002	$126,070	$112,168	$119,468	$114,489
81,846	62,342	34,030	41,615	36,615	53,813	58,114
181,333	181,982	171,301	152,109	93,734	67,674	63,476
570,676	501,223	458,197	429,103	357,949	328,517	278,574
8,500	10,750	23,000	43,586	17,550	19,930	22,300
318,890	258,843	213,393	187,270	164,782	177,414	140,377
$ 68,394	$ 52,413	$ 34,817	$ 34,335	$ 42,999	$ 44,675	$ 33,394
$ 4.82	$ 3.70	$ 2.47	$ 2.44	$ 2.75	$ 2.75	$ 1.97

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Stock Trading

The Washington Post Company Class B common stock is traded on the American Stock Exchange with the symbol WPOB.

Stock Transfer Agents and Registrars

Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10015

The Riggs National Bank of Washington, D.C.
Corporate Trust Division
Post Office Box 2651
Washington, D.C. 20013

Shareholder Inquiries

Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to either transfer agent.

Form 10-K

The company's Form 10-K annual report to the Securities and Exchange Commission will be provided to shareholders upon written request to the Treasurer, The Washington Post Company, 1150 15th Street, N.W., Washington, D.C., 20071.

Annual Meeting

The annual meeting of stockholders will be held on Friday, May 15, 1987, at 9:00 a.m., at The Washington Post Company, 1150 15th Street, N.W., Washington, D.C.

Common Stock Prices and Dividends

The Class A common stock of the company is not traded publicly. The Class B common stock is listed on the American Stock Exchange, where the high and low sales prices during the last two years were as follows:

	1986		1985	
Quarter	High	Low	High	Low
January-March	$156	$115	$112	$ 77¾
April-June	178	145½	130	110
July-September	184½	128	124¼	112
October-December	158	141	125½	101½

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 28 cents per share in 1986 and 24 cents per share in 1985. At February 28, 1987, there were 17 Class A and 1,844 Class B shareholders of record.

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The Washington Post Company
1150 15th Street, N.W.
Washington, D.C. 20071